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FOLLOWING REPEAT CARACAS 11246 ACTION SECSTATE DTD 13 NOV

QTE

S E C R E T CARACAS 11246

LIMDIS

E.O. 11652: GDS

TAGS: PFOR, VE

SUBJECT: VENEZUELA: POLICY RECOMMENDATIONS

REF: A. CARACAS 10979; B. CARACAS 8738; C. QUITO 7721

SUMMARY--FOR THE FIRST TIME SINCE BOLIVAR, VENEZUELA HAS THE ECONOMIC STRENGTH AND POLITICAL LEADERSHIP IN PRESIDENT PEREZ TO MAKE HER WILL FELT BEYOND HER BORDERS. AS A PRINCIPAL SUPPLIER OF OIL AND IRON ORE TO THE U.S., AS A MAJOR TRADING PARTNER AND HOST TO A LARGE U.S. PRIVATE INVESTMENT, VENEZUELA IS FA TOO IMPORTANT TO ALLOW US TO DRIFT INTO AN ADVERSARY RELATIONSHIP. BY CAREFULLY INITIATING A FRANK BUT LOW-KEY DIALOGUE WITH VENEZUELA ALONG THE LINES OF THE SECRETARY'S "NEW DIALOGUE" WITH LATIN AMERICA, WE CAN BEST REACH SOLUTIONS TO OUR DIFFERENCES AND SAFEGUARD OUR HIGH STAKES IN THIS
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COUNTRY. DEPENDING UPON ITS PROGRESS, THE REGULAR DIALOGUE MIGHT LATER BE REINFORCED BY A HIGH-LEVEL USG VISIT TO VENEZUELA AS RECOGNITION OF HER NEW AND INCREASING IMPORTANCE IN WORLD AFFAIRS. END SUMMARY

1. SINCE WORLD WAR II VENEZUELA HAS PROSPERED GREATLY FROM PETROLEUM, BUT NATIONAL PRIDE HAS BEEN GALLED BY THE VENEZUELANS' CONVICTION THAT THEIR PRIME RESOURCE, A WASTING ASSET, WAS BEING PUMPED AWAY BY FOREIGNERS FOR THEIR GREAT BENEFIT, WITH VENEZUELA HAVING TO STRUGGLE FOR WHATEVER ADVANTAGES IT COULD SQUEEZE FROM THE FOREIGNERS. AT THE SAME TIME THE VENEZUELANS' SENSE OF GRIEVANCE WAS HEIGHTENED BY WHAT THEY CONSIDERED AS GROSSLY UNFAIR TERMS OF TRADE BETWEEN VENEZUELA AND THE INDUSTRIALIZED COUNTRIES (I.E., THE UNITED STATES) AS THE PRICES OF IMPORTED GOODS ROSE BUT THE PRICES OF VENEZUELA'S OIL AND OTHER RAW MATERIALS DID NOT. VENEZUELAN RESENTMENT WAS FURTHER MAGNIFIED BY UNSUCCESSFUL EFFORTS TO WORK OUT A SPECIAL BILATERAL DEAL FOR ACCESS TO THE U.S. OIL MARKET IN THE FORM OF "HEMISPHERIC PREFERENCE." VENEZUELANS ATTRIBUTED THIS TO A LACK OF U.S. CONCERN AND RESPONSIVENESS TO THEIR PROBLEMS.

2. THE ENERGY CRISIS AND PRESIDENT CARLOS ANDREZ PEREZ'S ELECTORAL VICTORY IN DECEMBER 1973 COINCIDED AND TOGETHER HAVE CHANGED VENEZUELA'S PERCEPTION OF HERSELF AND HER WORLD ROLE. VENEZUELANS ARE CONFIDENT THAT THEY NOW HAVE THE STRENGTH TO ACHIEVE MANY OF THE ECONOMIC ASPIRATIONS THEY HAVE HELD OVER THE YEARS.

3. BESIDES IMMENSELY STRENGTHENING THE VENEZUELAN ECONOMY, THE VASTLY INCREASED REVENUES FROM OIL HAVE BOLSTERED THE POLITICAL POSITION OF PRESIDENT PEREZ TO THE POINT THAT HE IS RAPIDLY EMERGING AS A HEMISPHERE FIGURE. PEREZ, AN ENERGETIC AND ARTICULATE POPULAR LEADER, IS A SHREWD, SELF-MADE CAREER POLITICIAN FROM THE HARDCRABBLE ANDEAN STATE OF TACHIRA. (UNLIKE MOST LATIN AMERICAN CHIEFS OF STATE HE HAS NO COLLEGE DEGREE, AND HE ALSO SPEAKS NO ENGLISH.) ALTHOUGH HE HAS HAD COMPARATIVELY LITTLE EXPERIENCE IN FOREIGN AFFAIRS HE HAS BEEN QUICK TO EXPLOIT THE OPPORTUNITIES IN INTERNATIONAL REALTIONS OFFERED BY VENEZUELA'S CHANGED CIRCUMSTANCES. BESIDES PROVIDING LARGE SUMS FOR DEVELOPMENT ASSISTANCE AND INTERNATIONAL LENDING, PEREZ (WITH COLOMBIA AND COSTA RICA) HAS TAKEN THE INITIATIVE IN THE OAS
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TO LIFT SANCTIONS AGAINST CUBA AND HAS PROPOSED A MEETING OF LATIN AMERICAN NATIONISM." MORE IMPORTANTLY, HE HAS CONSTITUTED HIMSELF A LATIN AMERICAN SPOKESMAN FOR THE DEVELOPING THIRD WORLD COUNTRIES VIS-A-VIS THE DEVELOPED NATIONS, ESPECIALLY THE UNITED STATES. WHILE THIS SELF-ASSUMED ROLE MAY BE PRIVATELY RESENTED BY SOME OF PEREZ'S NEIGHBORS, NONE IS LIKELY SERIOUSLY TO DISPUTE IT SO LONG AS PEREZ PROFESSES TO SPEAK FOR THEIR GENERAL INTERESTS--AND HAS THE MONEY, OIL AND OTHER RESOURCES THEY NEED.

4. PEREZ'S REPLY TO PRESIDENT FORD FOLLOWING THE LATTER'S SEPTEMBER 18 ENERGY SPEECH TO THE UNITED NATIONS TYPIFIES VENEZUELA'S NEW SELF ASSURANCE. ALTHOUGH PRESIDENT FORD'S

REMAKRS WERE DIRECTED TO A FAR WIDER AUDIENCE THAN VENEZUELA, PEREZ, STILL INCENSED BY OUR AIDE MEMOIRE OF JULY 9, MAY HAVE GENUINELY BELIEVED THAT FORD'S SPEECH WAS DIRECTED AT VENEZUELA. PEREZ DID NOT HESITATE TO MAKE A PUBLIC REPLY DESIGNED (SUCCESSFULLY) TO WIN IM BROAD DOMESTIC AS WELL AS INTERNATIONAL SUPPORT (THE PRESIDENTS OF PERU AND ECUADOR PUBLICLY ENDORSED PEREZ'S REPLY TO PRESIDENT FORD). WHAT IRRITATED THE VENEZUELANS MOST ABOUT THIS EPISODE WAS THAT SO LITTLE ATTENTION IN TH U.S. AS GIVEN PEREZ'S MESSAGE THAT VENEZUELA HAD TO PUBLICIZE IT VIA PAID ADVERTISEMENTS IN LEADING U.S. NEWSPAPERS. THIS REACTION SUGGEST THAT ONE OF THE SIMPLEST AND EASIEST WAYS TO OFFEND VENEZUELA IS TO IGNORE HER. ANOTHER, MORE CERTAIN, WAY IS PUBLICLY TO IMPLY CRITICISM.

5. AN ADVERSARY RELATIONSHIP WITH VENEZUELA MIGHT NOT ONLY JEOPARDIZE THE HITHERTO UNINTERRUPTED FLOW OF VENEZUELAN PETROLEUM TO THE U.S. BUT ALSO ADVERSELY AFFECT THE \$3 BILLION U.S. INVESTMENT IN VENEZUELA, INCLUDING THE EVOLUTION OF THE PROCESS OF NATIONALIZATION OF U.S.-OWNED OIL AND IRON ORE COMPANIES, AND ALSO THE EXPANDING U.S. EXPORT MARKET IN THIS COUNTRY (CURRENTLY ABOUT \$1.5 BILLION ANNUALLY). CONFRONTATION WOULD STIMULTE VENEZUELAN NATIONALISM, STRENGTHEN PEREZ DOMESTICALLY, MAKE HIM A CHAMPION OF ANTI-U.S. SENTIMENT IN LATIN AMERICA, AND DRIVE HIM TO LEND INCREASING SUPPORT TO HARDLINE THIRD WORLD POSITIONS.

6. IN ORDER TO AVOID THE ABOVE RISKS, THE EMBASSY RECOMMENDS THAT WE ATTEMPT TO INITIATE A LOW-KEY DIALOGUE WITH THE
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VENEZUELAN GOVERNMENT AT VARIOUS LEVELS. WITHOUT COMPROMISING PEREZ'S INDEPENDENT STANCE, SUCH A DIALOGUE WOULD ENABLE US TO HAVE REGULAR, SERIOUS, SUSTAINED AND, AS WARRANTED BY PROGRESS ACHIEVED, HIGHER-LEVEL CONSULTATIONS WITH PEREZ AND THE GOV TO WORK OUT DURABLE SOLUTIONS TO PROBLEMS. IN URGING THIS APPROAHC, WE BELIEVE PEREZ IS NOT SO MUCH ANTI-U.S. AS A HARD AND NATIONISTIC BARGAINER. THE RESORT TO DIALOGUE HAS ALREADY BEEN APPROVED IN PRINCIPLE BY NSDM 257 OF JUNE 10. 1974.

7. SPECIFICALLY, WE SUGGEST INCREASED CONSULTATION ON ECONOMIC AND POLITICAL ISSUES THROUGH MORE INSTITUTIONALIZED AND REGULAR DIALOGUE BETWEEN THE EMBASSY AND APPROPRIATE VENEZUELAN MINISTRIES, AT VARIOUS LEVELS INCLUDING THE AMBASSADORIAL-MINISTERIAL. AFTER CAREFUL PREPARATION THE SECRETARY'S PLAN FOR TALKS BETWEEN S/P REPRESENTATIVES AND THE GOV HOPEFULLY COULD OPEN A NEW AVENUES OF COMMUNICATION, POSSIBLY ALONG THE LINES SUGGESTED IN CARACAS 8738.

8. IF WE ARE T HAVE A SERIOUS, PRODUCTIVE DIALOGUE WITH VENEZUELA, AN AGENDA MUST BE SELECTED BSD UPON MUTUAL INTERESTS RATHER THAN SERIOUS DIFFERENCES. FROM THE ASPECT OF DIPLOMATIC TACTICS, WE CAN GET FAR MORE MILEAGE IN A FUTURE NEGOTIATION WITH

PRESIDENT PEREZ IF WE MAKE IT SEEM THAT IN FACT IT IS OUR DESIRE TO ASSIST HIM TO ACHIEVE HIS AMBITIOUS PROGRAM OF A FUNDAMENTAL REORDERING OF THE VENEZUELAN ECONOMY, AS OUTLINED IN HIS SPEECH TO CONGRESS TO APRIL 29 THIS YEAR (SEE ANNEX TO STUDY MEMORANDUM OF JULY 26, 1974. MANY OF THESE OBJECTIVES, SUCH AS VASTLY INCREASED STEEL, ALUMINUM, AND SHIPBUILDING INDUSTRIES, DIRECTLY CONCERN THE TRANSFER OF TECHNOLOGY WHICH FORMED A SIGNIFICANT CONTRIBUTION AT THE CONFERENCE OF TLATELOLCO. OTHER POINTS IN PRESIDENT PEREZ'S SPEECH TO THE NATION INCLUDED AN ALMOST REVOLUTIONARY BETTERMENT OF THE AGRICULTURAL SECTOR OF THE REPUBLIC; AND HERE, TOO, U.S. TECHNOLOGY IN TERMS OF SCIENTIFICALLY IMPROVED CROPS, THE AVAILABILITY OF NEEDED AGRICULTURAL MACHINERY, AND POSSIBLY EVEN A CONTRIBUTION BY OUR OWN PEACE COPRS, COULD BE MADE TO SEEM TO PRESIDENT PEREZ AS A CONSTRUCTIVE ATTEMPT BY THE UNITED STATES TO ASSIST HIM IN ACHIEVING A GOAL WHICH WILL HAVE ALSO IMPORTANT SOCIOLOGICAL (AND POLITICAL) BENEFITS.

9. IF WE FOLLOW THIS SUGGESTION, THE UNITED STATES WOULD NEED TO
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DEFINE ITS INTERESTS MOST CAREFULLY, PERHAPS ALONG THE LINES OF THE RECOMMENDATION IN THE STUDY MEMORANDUM OF JULY 26, 1974, IN RESPONSE TO NSSM 203. WITHIN THIS FRAMEWORK THE FOLLOWING SUBJECTS ARE ILLUSTRATIVE OF THE TOPICS WHICH MIGHT BE INCLUDED:

(A) PETROLEUM PRICES AND ACCESS TO VENEZUELAN OIL
SINCE THERE APPEARS TO BE LITTLE LIKELIHOOD OF U.S. EFFORTS LEADING TO A LOWER PRICE FOR VENEZUELAN PETROLEUM, OUR PRIMARY OBJECTIVE SHOULD BE TO OBTAIN LONG-TERM ACCESS TO VENEZUELAN OIL AT NO HIGHER THAN CURRENT PRICES. THIS IS NOT TO SAY THAT WE SHOULD ACQUIESCE TO THE LEVEL OF CURRENT PRICES FOR THE LONG RUN, BUT ACCESS RATHER THAN PRICE SHOULD BE OUR MAIN CONSIDERATION. GIVEN THE VENEZUELAN DETERMINATION TO ACCELERATE REVERSION OF THE PETROLEUM INDUSTRY AND TO NATIONALIZE AS SOON AS POSSIBLE THE IRON INDUSTRY, WE SHOULD MAKE EVERY EFFORT TO ENSURE THAT THE BILATERAL ATMOSPHERE WILL CONTRIBUTE TO THE MOST ADVANTAGEOUS FUTURE ARRANGEMENTS BOTH FROM THE STANDPOINT OF THE U.S. OIL COMPANIES AND THE U.S. ROVERNMENT. THE MORE SERVICES WHICH THE U.S. CAN CONTINUE TO PROVIDE, ESPECIALLY IN THE AREAS OF MARKETING AND TECHNOLOGY, THE MORE WE WILL BE ABLE TO DEPEND ON VENEZUELA AS A SOURCE OF PETROLEUM.

(B) PETRO-DOLLAR RECYCLING
VENEZUELA IS TRYING TO GET OUT IN RONT OF THE OPEC MEMBER COUNTRIES IN PROPOSING THAT THEY OFFER SOME POSITIVE SUGGESTION TO THE CONSUMER COUNTRIES FOR RECYCLING EXCESS REVENUE. ONE OF THE VENEZUELAN INITIATIVES WILL INVOLVE SENDING A CABINET-LEVEL MISSION TO SOME ARAB AND OTHER OIL-PRODUCING COUNTRIES TO SET THE STAGE FOR THIS SUBJECT TO BECOME AN AGENDA ITEM AT THE DECEMBER OPEC MINISTERIAL MEETING. U.S.-VENEZUELAN INTERESTS MAY COINCIDE IN THIS IMPORTANT AREA.

(C) BILATERAL TRADE
ALTHOUGH U.S. TRADE WITH VENEZUELA HAS IN THE PAST BEEN CONDUCTED

THROUGH PRIVATE COMPANIES WITHOUT PARTICIPATION OF THE TWO GOVERNMENTS, WE MAY FIND IT IN OUR INTEREST TO EXAMINE SERIOUSLY THE POSSIBILITY OF GOVERNMENT-TO-GOVERNMENT ARRANGEMENTS. VENEZUELA'S EXTRACTIVE INDUSTRIES WILL SOON BE NATIONALIZED AND THE GOV ALREADY CONTROLS THE PURCHASE OF BASIC AGRICULTURAL COMMODITY IMPORTS. THE GSP PROVISIONS OF THE TRADE BILL, INCLUDING THE POSSIBLE EXCLUSION OF VENEZUELA AS AN OPEC COUNTRY, WILL HEIGHTEN THE NEED FOR BILATERAL CONSULTATIONS AND POSSIBLE NEGOTIATIONS FOR AN ACCESS AGREEMENT.

(D) INVESTMENTS

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AS INDICATED IN SUB-PARAGRAPH B ABOVE, THERE IS AN IMPORTANT ELEMENT OF VENEZUELAN INVESTMENT IN MULTINATIONAL FINANCIAL INSTITUTIONS AND ALSO DIRECTLY IN U.S. FINANCIAL MARKETS. LIKEWISE, VENEZUELAN ARE INTERESTED IN THE POSSIBILITY OF FUTURE U.S. INVESTMENT IN THEIR COUNTRY. IN THIS CONNECTION WE NOTE THAT THERE ARE IMPORTANT U.S. INVESTMENTS IN VENEZUELA WHICH ARE AFFECTED BY THE PROVISIONS OF THE ANDEAN PACT.

(E) TECHNOLOGICAL COOPERATION IN PETROLEUM DEVELOPMENT DECLINING PRODUCTION WILL EVENTUALLY REQUIRE THE GOV TO DEVELOP ITS OTHER POTENTIAL RESERVES, NOTABLY THE ORINOCO TAR BELT, WHICH IS SUPPOSED TO CONTAIN 700 BILLION BARRELS OF VISCOUS, MINERALIZED OIL. FOREIGN TECHNOLOGY WILL INEVITABLY BE REQUIRED IN SOME FORM. FOREIGN TECHNOLOGY WILL INEVITABLY BE REQUIRED IN SOME FORM. THE SHELL COMPANY ALREADY HAS SIGNED AN AGREEMENT WITH CVP FOR THE DEMETALIZING OF HEAVY OIL, AND THIS COULD BE THE FORERUNNER OF MORE EXTENSIVE TECHNOLOGICAL AGREEMENTS WITH FOREIGN SOURCES. THE DIRECTOR OF HYDROCARBONS IN THE MINISTRY OF MINES HAS CONFIDENTIALLY TOLD THE EMBASSY THAT THERE WOULD BE A GOOD POSSIBILITY OF U.S.-VENEZUELAN COOPERATION FOR DEVELOPMENT OF THE ORINOCO BELT, BUT THAT SUCH COOPERATION WOULD HAVE TO BE CAST, FOR POLITICAL REASONS, IN TERMS OF TECHNOLOGICAL COOPERATION IN THE DEVELOPMENT OF "HEAVY" CRUDES, WITH NO MENTION OF THE PRECISE GEOGRAPHICAL LOCATION.

10. IF THE NEW DIALOGUE IS SUCCESSFUL, SERIOUS CONSIDERATION MIGHT BE GIVEN AT A FUTURE DATE TO A VISIT TO VENEZUELA BY THE SECRETARY. IN THE MEANTIME WE SUGGEST THE DESIRABILITY OF A LETTER FROM PRESIDENT FORD TO PRESIDENT PEREZ CALLING FOR DIALOGUE AS A MEANS OF FORESTALLING ADDITIONAL HIGH-LEVEL PUBLIC STATEMENTS WHICH CAN ONLY EXACERBATE THE PRESENT ATMOSPHERE OF CONFRONTATION. WE BELIEVE PRESIDENT PEREZ WOULD ACT POSITIVELY TO SUCH AN UNMISTAKABLE INDICATION OF OUR CONCERN FOR OUR RELATIONS WITH ONE OF OUR MAJOR OIL SUPPLIERS AND A MAJOR LATIN AMERICAN POWER. OPPORTUNITY WOULD BE AFFORDED FOR DECISIONS IN OUR BILATERAL RELATIONS AND FOR AVOIDING STRAINS RESULTING FROM OIL COMPANY REVERSION. SUCH A DEMONSTRATION OF FRIENDSHIP WOULD, WE BELIEVE, NEUTRALIZE ANTI-U.S. PRESSURES ON PEREZ AND ENCOURAGE HIM TO BE A MORE RESPONSIBLE AND COOPERATIVE HEMISPHERE PARTNER.

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11. THE FOREGOING WAS DRAFTED BEFORE THE RECEIPT OF QUITO 7721,
FROM WHICH IT APPEARS THAT FONMIN SCHACHT ALSO IS THINKING OF A
JOINTLY FRAMED AGENDA OF U.S.-VENEZUELAN BILATERAL PROBLEMS.
WE WELCOME THE SUGGESTION OF DEPUTY SECRETARY INGERSOLL THAT
ASSISTANT SECRETARY ROGERS WOULD BE THE APPROPRIATE PERSON TO GO
TO VENEZUELA TO TALK ABOUT SUCH AN AGENDA.
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